136 FERC ¶ 61,232
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

California Independent System Operator Corporation Docket Nos. ER11-4176-000
ER11-4176-001

ORDER CONDITIONALLY ACCEPTING TARIFF REVISIONS

(Issued September 30, 2011)

1. In this order, we conditionally accept the California Independent System Operator Corporation's (CAISO) proposed revisions to its Open Access Transmission Tariff (OATT or Tariff) implementing new settlement process timelines for its markets, to become effective October 1, 2011, as requested. We also direct CAISO to submit a compliance filing within 30 days of the issuance of this order, as discussed below.

I. Background

2. In Order No. 741,[1] the Commission found that there is a correlation between a reduction in the settlement cycle and a reduction in costs attributed to default.[2] To reduce the risks and costs associated with default, the Commission directed each Regional Transmission Operator and Independent System Operator, among other things, to submit a compliance filing that includes Tariff revisions to establish shorter billing and settlement periods that are, at most, weekly.[3]

3. On June 30, 2011, CAISO submitted its revisions to comply with the directives in Order No. 741. In its Order No. 741 compliance filing, among other things, CAISO proposed to issue an initial settlement statement three business days after each trading

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[1] *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, FERC Stats. & Regs. ¶ 31,317 (2010), *order on reh'g*, Order No. 741-A, FERC Stats. & Regs. ¶ 31,320 (2011), *reh'g denied*, Order No. 741-B, 135 FERC ¶ 61,242 (2011).

[2] Order No. 741, FERC Stats. & Regs. ¶ 31,317 at P 17.

[3] *Id.* P 32.

day. The proposed Tariff provided for CAISO to send the market participant an invoice containing the aggregated settlement statements from Monday-Sunday (invoice) on Wednesday, three business days after this seven-day settlement period. CAISO proposed that payment for the aggregated invoice be due the following Tuesday, four business days after it issues the invoice. For the initial settlement statement, CAISO proposed to use only estimated meter data to expedite the settlement process. To the extent that variances occur between CAISO's estimates and subsequently available actual meter values, CAISO stated that they will be captured as incremental changes between the initial statement and the subsequent recalculation settlement statements, and will be reconciled with interest. CAISO noted that it anticipates reducing the issuance of the first recalculation settlement from 38 business days after the trading day to just 12 business days. However, CAISO stated that it would make the settlement process timeline changes in a separate filing.[4]

4. On September 15, 2011, the Commission conditionally accepted CAISO's Order No. 741 compliance filing, to be effective October 1, 2011, finding, in particular, that CAISO's proposed revisions comply with the directive of Order No. 741 to shorten its settlement cycle.[5]

II. CAISO's Filing

5. On August 1, 2011, as amended on August 2, 2011,[6] pursuant to section 205 of the Federal Power Act,[7] CAISO filed proposed modifications to its Tariff to the market settlement process timeline that, according to CAISO, will accelerate and improve the efficiency of the existing settlement process.[8] CAISO states that the instant filing contains Tariff revisions intending to complement the shortened settlement and billing periods proposed in its Order No. 741 compliance filing. Also, CAISO notes that the acceleration of the settlement timeline mandated by Order No. 741 created large gaps of time between the initial settlement statement and subsequent recalculation settlement

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[4] CAISO, Order No. 741 Compliance Filing, Docket No. ER11-3973-000, at 8 & n.15.

[5] *Cal. Indep. Sys. Operator Corp.*, 136 FERC ¶ 61,194, at P 12 (2011).

[6] CAISO filed an errata to include a portion of the Tariff record that it inadvertently omitted from the original filing.

[7] 16 U.S.C. § 824d (2006).

[8] CAISO August 1, 2011 Filing, Transmittal Letter (Transmittal Letter) at 1.

statements. Thus, CAISO proposes further modifications to the settlement timeline to create a more effective and efficient overall market settlement process.[9]

6. CAISO proposes to move forward the publication of present recalculation settlement statement from 38 business days after the trading day to 12 business days after the trading day (first recalculation settlement statement) and the recalculation settlement statement from 76 business days after the trading day to 55 business days after the trading day (second recalculation settlement statement).[10] CAISO states that this acceleration of the settlement statements cycle is consistent with the objectives of the Commission's credit reform policy established in Order No. 741 by reducing the credit risk exposure to market participants and the risk of non-payment due to default. In addition, CAISO proposes to add a new recalculation settlement statement as needed 9 months after the trading day.[11] According to CAISO, this new recalculation settlement statement will allow for more expedited recognition of settlement configuration changes that currently must wait to be settled until the recalculation settlement statement 18 months after the trading day is calculated and published.

7. CAISO also revised its deadlines for submitting settlement quality meter data to be commensurate with its new settlement statement dates. Specifically, CAISO proposes to require that meter data be submitted: (1) no later than 8 business days after the trading day, for the first recalculation settlement statement; (2) no later than 48 business days after the trading day, for the second recalculation settlement statement; and (3) between 168 and 172 business days after the trading day for the new recalculation settlement statement 9 months after the trading day.[12]

8. CAISO also proposes to revise its deadlines for disputing terms in its recalculation settlement statements. Specifically, CAISO proposes settlement dispute submittal deadlines of: (1) 26 business days after the trading day, for the first recalculation settlement statement; (2) 77 business days after the trading day, for the second

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[9] *Id.* at 7.

[10] *Id.* at 7-8

[11] Thereafter, the settlement timeline retains the existing scheduled recalculation settlement statements that may be issued as needed 18 months after the trading day, 35 months after the trading day or 36 months after the trading day. *Id.* at 8.

[12] *Id.* at 16-17.

recalculation settlement statement; and (3) 22 business days after the settlement statement, for the new recalculation settlement statement 9 months after the trading day.[13]

9. CAISO also proposes to add a new unscheduled recalculation settlement statement, which would be made on an as-needed basis. CAISO proposes that, (1) if a data processing error on the recalculation settlement statements 9 months or 18 months after the trading day results in a financial impact of over $1,000,000 and (2) the error was timely identified within the applicable settlement dispute window by either CAISO or a scheduling coordinator, CAISO will notify the market and publish a more accurate settlement statement no less than 30 days after notifying the market.[14]

10. Additionally, CAISO proposes to modify its invoicing policy. Based on stakeholder consensus, CAISO states that it will align the billing periods for the initial settlement statement and the first recalculation settlement statement so that the same trading days appear on both invoices, rather than invoicing all available settlement statements that could cause the trading days on the invoices to differ. CAISO acknowledges that this change will in some cases delay the invoicing of some available market results. However, CAISO states that most stakeholders prefer this approach because the benefits that will result for accounting and validation purposes outweigh the harm in any delay for the issuance of settlement statements.[15]

11. CAISO also revises its penalties for submitting inaccurate and late settlement quality meter data. Specifically, CAISO proposes to modify section 37.5.2.1 of the Tariff to require that market participants provide complete and accurate settlement quality meter data for each trading hour and correct any errors in the data no later than 48 business days after the trading day. Failure to either submit complete and accurate actual settlement quality meter data or to replace estimated settlement quality meter data with complete and accurate actual settlement quality meter data by this timeline constitutes a violation of that provision. Also, failing to provide complete and accurate actual settlement quality meter data, as required by section 10.3.6, that causes an error to exist in the meter data after 48 business days from the trading day is a violation of that provision. Further, scheduling coordinators that fail to submit estimated settlement quality meter data that is complete and based on a good faith estimate that reasonably represents demand and/or generation quantities for each settlement period, as required by section 10, is in violation

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[13] *Id.* at 13.

[14] *Id.* at 10-11. The net amounts that result from the generation of an unscheduled reissue recalculation settlement statement, CAISO notes, will be included in the next available regularly scheduled weekly invoice.

[15] *Id.* at 15.

of that provision and may be referred to CAISO's department of market monitoring for investigation.[16]

12. In addition, CAISO proposes to modify section 37.11.1 to indicate that there is no sanction for the submission of inaccurate or late actual settlement quality meter data used for the first recalculation settlement statement. However, failure by a scheduling coordinator to submit actual settlement quality meter data or to replace estimated settlement quality meter data with actual settlement quality meter data for one or more scheduled resource identifications will constitute a violation of the Rules of Conduct. CAISO proposes to assess a $1,000 sanction for each trade day corrected.[17] CAISO further proposes to assess a penalty of $3,000 for each trading day corrected, if accurate meter data is not submitted for the recalculation settlement statement 9 months after the trading day.[18]

13. In cases where CAISO does not perform a recalculation settlement statement or market re-run, CAISO proposes that the penalty for inaccurate meter data will be a sanction of $1,000 and a market adjustment, where the error benefitted the scheduling coordinator. CAISO states that the market adjustment approximates the financial impact of the inaccurate data of the market but does not take into account all settlement impacts of inaccurate data. CAISO states that, for the market adjustment, the approximate value of the inaccurate meter data will be calculated and returned to the market based on the share of unaccounted for energy charged in the utility service area during the inaccurate meter data event. CAISO states that a market adjustment will not be performed, but will levy a sanction of $1,000 per trading day, if the error was to the detriment of the scheduling coordinator who made the error. CAISO deems inaccurate meter data to be to the detriment of a scheduling coordinator if it involves underreported generation or over reported load.[19]

14. CAISO proposes a number of other minor revisions to its Tariff. Specifically, CAISO proposes to: (1) revise its methodology for calculating interest such that interest

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[16] *Id.* at 18-19.

[17] The current penalty for inaccurate meter data is 30 percent of the monetary value of the error, if the error is discovered by the scheduling coordinator, and 75 percent of the monetary value of the error, if the error is discovered by CAISO. CAISO, OATT, § 37.11.1 (0.0.0).

[18] Transmittal Letter at 19.

[19] *Id.* 19-20.

is calculated on a daily basis;[20] (2) clarify that CAISO will estimate meter data for all demand response resources, and not only proxy demand response resources; and (3) clarify that it will estimate net load for a metered subsystem by applying a monthly, historical based net/gross load ratio to the metered subsystem's estimated gross load.[21] To assist with the transition, CAISO also proposes to move its current settlement provisions to Appendix J and apply existing metering and scheduling provisions of the current Tariff to all market transactions that occur prior to the trading date.

15. CAISO requests that the Commission accept the proposed Tariff revisions with an October 1, 2011 effective date, which CAISO states coincides with the effective date of the Tariff revisions submitted in its Order No. 741 compliance filing.[22]

III. Notice of Filing and Responsive Pleadings

16. Notice of CAISO's filing was published in the *Federal Register*, 76 Fed. Reg. 49,464 (2011), with interventions and protests due on or before August 22, 2011. Notice of CAISO's errata was published in the *Federal Register*, 76 Fed. Reg. 49,467 (2011). with interventions and protests due on or before August 23, 2011. Pacific Gas and Electric Company; California Department of Water Resources State Water Project; the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Modesto Irrigation District; and M-S-R Public Power Agency and the City of Santa Clara, California submitted timely motions to intervene. Powerex Corp. (Powerex), Northern California Power Agency (NCPA), and Southern California Edison Company (SoCal Edison) filed timely motions to intervene and comments. On September 6, 2011, CAISO filed an answer.

A. Comments

17. Powerex submitted comments in support of the proposed changes to the settlement timelines.[23]

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[20] *Id.* at 16.

[21] *Id.* at 10.

[22] *Id.* at 21. CAISO notes that the proposed Tariff revisions in the instant filing were outside the scope of the Commission's directives in Order No. 741 and, therefore, did not include them in its Order No. 741 compliance filing; however, taken together, the two filings comprise a package of improvements to the CAISO settlement process that will provide greater market settlement efficiencies for both market participants and CAISO. CAISO states that it seeks to deploy all the changes to the settlement process at the same time, on October 1, 2011. *Id.*

18. NCPA requests that the Commission order CAISO to use the existing electronic notification system to issue all settlement publication notices, rather than permitting CAISO to issue e-mail notifications to market participants on the unscheduled recalculation settlement statements and "as-needed" settlements statements 9 months after the trading day. NCPA argues that the use of e-mail places an undue burden on market participants and creates significant potential for error. NCPA states that the use of e-mail would require market participant personnel to continually monitor e-mail for these infrequent notices. NCPA notes that, if an e-mail statement is inadvertently missed, a market participant may lose the opportunity to dispute that settlement, and will not have the most current settlement information for validation and invoicing. Accordingly, NCPA maintains that CAISO should be required to notice these irregularly issued settlement statements through its existing electronic notification system.[24]

19. SoCal Edison states that it supports CAISO in its assessment of a sanction and market adjustment for submission of inaccurate or late actual settlement quality meter data. However, SoCal Edison states that a market adjustment is a proxy for recalculating settlement charges in lieu of a market re-run and, therefore, is inappropriate to refer to it as a penalty.[25]

20. SoCal Edison also requests clarification on how the market adjustment correcting inaccurate meter data would be distributed if there are no subsequent recalculation settlement statements for the trading day. SoCal Edison states that CAISO could include this language in the Business Practice Manual or the Tariff.[26]

21. SoCal Edison states that CAISO's criteria for determining whether meter data errors are to the detriment of the responsible scheduling coordinator for the purpose of determining whether to perform a market adjustment is insufficient. SoCal Edison states that CAISO's criteria of underreported generation or over reported load may not capture whether a scheduling coordinator benefited because such errors merely create errors that may be detrimental or beneficial depending on circumstances. SoCal Edison argues that CAISO's determination of whether an error is detrimental or beneficial should be made on a dollar basis, rather than on a megawatt per hour (MWh) basis, as this would better

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[23] Powerex Comments at 3.

[24] NCPA Comments at 4-5.

[25] SoCal Edison Comments at 2.

[26] *Id.*

report the decision to perform a market rerun or produce a recalculation settlement statement.[27]

22. SoCal Edison further notes that, at the time a market adjustment is assessed, CAISO cannot be sure whether a market rerun or settlement will eventually take place. SoCal Edison argues that, in the event a market rerun does take place subsequently, there needs to be a way to unwind the market adjustment so as to not create a double payment for the market adjustment in addition to the resettled amount.[28]

23. SoCal Edison also requests clarification on two matters. First, SoCal Edison requests clarification on the specific conditions or thresholds that will determine whether a recalculation settlement statement will occur. Second, SoCal Edison requests clarification on how the $1 million threshold for performing an unscheduled recalculation settlement statement is calculated. Specifically, SoCal Edison requests clarification if the threshold is a net amount or gross amount. SoCal Edison notes that there could be situations where there is zero net affects to the market but a $500,000 uplift and a $500,000 credit.[29]

B. CAISO Answer

24. In response to NCPA's request that CAISO issue a market notification through its electronic notification system rather than via e-mail, CAISO states that its proposed notification systems are sufficient. CAISO emphasizes that, in the event of recalculation settlement statements, multiple forms of notice are issued. Pursuant to existing section 11.29.7.1, CAISO states that it provides a market notice via e-mail to market participants and other interested parties to advise them if a 18-, 35-, or 36-month recalculation settlement statement will be issued. In addition to that formal notice, CAISO notes that it sends e-mail and hosts weekly conference calls for the Settlements and Market Clearing System users group, which is composed of most settlement representatives and vendors of scheduling coordinators. CAISO states that it has used this system to notify market participants of recalculation settlement statements since the current statements were implemented in November 2009, and that there have been no missed payments or requests from other market participants for a different form of notice. Finally, CAISO argues that its current notification system is a much more targeted communication with

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[27] *Id.* at 2-3.

[28] *Id.* at 3.

[29] *Id.*

market participants' settlement staff than the electronic system NCPA requests, which is a system that is primarily used for operations communications.[30]

25. With regard to SoCal Edison's request for clarification on how CAISO would distribute a market adjustment after the last recalculation settlement statement 36 months after the trading day, CAISO states that whether the market adjustment would be performed depends on the trading day on which the error occurred. CAISO states that, if the error occurred prior to November 1, 2009, when CAISO's "payment acceleration" Tariff provisions went into effect, then the Tariff provisions effective prior to that date would apply. However, CAISO states, if the error occurred after that date, then the sunset provision contained in section 11.29.7.3 would apply and not permit a recalculation settlement statement after 36 months, unless directed by the CAISO governing board or the Commission. Given that this clarification is based on existing Tariff provisions, CAISO maintains that it is not necessary to add the clarification to the Tariff.[31]

26. CAISO disagrees with SoCal Edison's suggestion that determining whether a meter data error is to the detriment of the responsible scheduling coordinator should be made on a dollar basis, not based on over reported load or underreported generation. CAISO notes that it has used the underreporting of generation and the over scheduling of a demand as a metric for determining the impact of the meter data error since 2005 and it is not proposing to change that metric in the instant filing. CAISO argues that the metric is an appropriate basis of determining how the scheduling coordinator is impacted by its meter error. The underreporting of generation or the over reporting of load would be to the detriment of the scheduling coordinator because the scheduling coordinator would either not be paid for all of the generation it produced or would pay for load it did not actually serve. Conversely, the over reporting of generation or the underreporting of load would benefit the scheduling coordinator and harm other market participants because the scheduling coordinator would either be paid for generation it did not actually produce or would not pay for all of the load it actually served.

27. In addition, CAISO notes that, if it is determined that a scheduling coordinator benefits from the error, market adjustments are calculated using the greater of an average of locational marginal prices or $10/MWh. So there is no opportunity for a scheduling coordinator to benefit from a market adjustment due to negative prices.[32]

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[30] CAISO Answer at 8-9.

[31] *Id.* at 10-11.

[32] *Id.* 11-12.

28. In response to SoCal Edison's statement that there should be a way to unwind a market adjustment in the event of a settlement re-run, in order to avoid a double payment of the market adjustment and resettled amount, CAISO states that such a provision already exists. CAISO points to section 11.29.7.3.3, which provides that any double counting should be corrected in the next scheduled invoice.[33]

29. In response to SoCal Edison's suggestion that a market adjustment in response to an error should not be called a penalty, CAISO states that it believes that the term is used appropriately and that the suggested change is unnecessary.

30. With regard to SoCal Edison's first clarification on what specific conditions or thresholds CAISO will use to determine whether a recalculation settlement statement should be issued, CAISO clarifies that it will issue a recalculation settlement statement as needed in order to process the resolution of a negotiation, reflect an updated settlement configuration, correct a CAISO data processing issue, make other settlement corrections, or effectuate an adjustment directed by the Commission. CAISO states that nothing in the instant filing changes its present practices. CAISO notes that the instant filing does add a new recalculation settlement statement nine months after the trading day, but will apply the same reasons for issuing that statement as it has for other recalculation statements in the past. CAISO further states that it will modify the Business Practice Manual for Settlements and Billing to provide examples of the circumstances that will lead to issuance of the as needed recalculation settlement statements.[34]

31. With regard to SoCal Edison's second clarification on the $1 million threshold, CAISO states that it measures the sum of payments or charges incorrectly assessed due to the error to determine whether the threshold was met. CAISO states that a net amount calculation would not be a valid option because this would include both the amount of the error and the amount needed to correct the error, and the final result will always be zero. CAISO further notes that if it were to add these two numbers, it would always be double the amount of the error.[35]

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[33] *Id.* at 12.

[34] *Id.* at 5-6.

[35] *Id.* 6-7. CAISO, however, states that it will in a compliance filing, if directed by the Commission, add a statement to section 11.29.7.3.1 to clarify that, for purposes of determining whether the $1 million threshold for issuing an unscheduled reissue recalculation settlement statement has been met, CAISO will calculate the financial impact resulting from a CAISO data transfer error or other similar data processing error based on the dollar value of the charges that were mistakenly assessed due to the error, which does not include the dollar value of corrective adjustment. *Id.* at 7.

IV. Discussion

A. Procedural Matters

32. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

33. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2011), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept CAISO's answer because it has provided information that assisted us in our decision-making process.

B. Substantive Matters

34. We find that CAISO's proposed Tariff provisions complement CAISO's modification of its settlement timeline in compliance with Order No. 741. CAISO's proposed revisions to the settlement and invoicing procedures improve the overall efficiency of the settlement process by ensuring shorter gaps between the initial settlement statement and subsequent recalculation settlement statements. This improvement is consistent with the Commission's finding in Order No. 741 that there is a correlation between a reduction in the settlement cycle and a reduction in costs attributed to default.[36] Accordingly, we find that CAISO's proposed revisions in the instant filing are just and reasonable and not unduly discriminatory or preferential and, therefore, accept CAISO's revisions to become effective October 1, 2011, as requested, subject to the compliance filing ordered below.

35. We will not direct CAISO to notify market participants of settlement statements, such as unscheduled settlement statements, through its electronic notification system, which CAISO states is a system used primarily for operations communications. As CAISO notes, it currently notifies market participants of these settlements via e-mail; thus, market participants should already be accustomed to monitoring this form of communication for updates from CAISO. We do not believe that monitoring e-mail places an undue burden on market participants and, as CAISO has also noted, no problems have arisen from this form of communication since it was implemented in 2009. Accordingly, we find that is unnecessary to require CAISO to notify market participants through other channels of communication.

36. We find that the means by which CAISO calculates whether meter data error is to the benefit or detriment of a scheduling coordinator is reasonable. As CAISO

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[36] Order No. 741, FERC Stats. & Regs. ¶ 31,317 at P 17.

demonstrates, if a scheduling coordinator underreports generation or over reports load, it is harmed by its error because it is either not paid for the generation it actually produces or is overcharged for its actual load. Conversely, if a scheduling coordinator over reports generation or underreports load, it benefits from its market error because it is either overpaid for the generation it actually produces or is undercharged for its actual load, and, therefore, would be charged a market adjustment.

37. In response to SoCal Edison's request that CAISO determine the impact of meter data errors based on the dollar value of the error, we find CAISO's methodology for determining the impact of a meter data error to be reasonable. CAISO clearly explains that its methodology would correctly assess the impact of an error. SoCal Edison contends that this methodology may not be accurate depending on the "relationship between the meter reporting error and the schedule and the relationship between day ahead and real time prices."[37] However, SoCal Edison has not explained or supported this contention and, therefore, we are not persuaded that the determination be made on a dollar basis, as suggested by SoCal Edison. Accordingly, we accept CAISO's methodology.

38. Further, we agree with CAISO that currently effective section 11.29.7.3.3 of the Tariff provides a mechanism under which any double counting is corrected. Accordingly, SoCal Edison's concern regarding market rerun or settlement is already addressed by that Tariff provision.

39. SoCal Edison suggests that a market adjustment in the event of inaccurate meter data should not be characterized as a "penalty." We find that CAISO's characterization in the Tariff is appropriate. Further, a change in the characterization of a market adjustment would not alter the final outcome or the processing of the market adjustment. Accordingly, we find that a re-characterization of the market adjustment is unnecessary.

40. Finally, with regard to SoCal Edison's requests for clarification, we find that CAISO has adequately provided the necessary clarifications in its answer, and acknowledge CAISO's commitment that it will modify its Business Practice Manual for Settlements and Billing to provide examples of the circumstances that will lead to issuance of the as needed recalculation settlement statements. However, as CAISO has offered to further clarify its threshold for issuing an unscheduled reissue recalculation settlement statement, we direct CAISO to clarify section 11.29.7.3.1 that, for purposes of determining whether the $1 million threshold for issuing a unscheduled reissue recalculation settlement statement has been met, CAISO will calculate the financial impact resulting from an error based on the dollar value of the charges that were mistakenly assessed due to the error.

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[37] SoCal Edison Comments at 2.

The Commission orders:

(A) CAISO's filing is hereby conditionally accepted, subject to the compliance filing ordered below, to become effective October 1, 2011, as discussed in the body of this order.

(B) CAISO is hereby directed to submit a compliance filing in this docket within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.